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RP
SUBJECT: PRESIDENT FOCUSES ON ECONOMY IN STATE OF THE NATION ADDRESS

¶11. (U) In her penultimate State of the Nation Address (SONA), Philippine President Gloria Macapagal Arroyo highlighted her administration's efforts to improve the country's economy and help the poor cope with rising food and fuel costs. The President called for legislation to implement a peace agreement with Muslim insurgents. She stressed several successful development projects supported by the USG; included a projected photo of her with President Bush from her recent Oval Office visit; and privately thanked the Ambassador for her recent visit to Washington. The atmosphere inside Congress was festive, while thousands outside in heavy rains protested peacefully against her presidency.

¶12. (U) In the weeks leading up to the address, the media has focused on recent polling numbers showing President Arroyo as increasingly unpopular, prompting her to use the annual address as a forum to tout her national social welfare plan. President Arroyo also reminded the Philippine people of the large number of infrastructure projects completed during her tenure as president. She appeared confident as she delivered her 55-minute remarks, laying out specific accomplishments, including successfully addressing the global rice and energy crisis through effective government intervention.

ADDRESSING USG INTERESTS

¶13. (SBU) The President's address hit on several issues with which the Mission has been significantly involved, including the Millennium Challenge Corporation (MCC), the peace process, and the roll-on roll-off transportation system. In addressing a widespread perception of government corruption, President Arroyo thanked the MCC, which she said has commended the country's gains in fighting corruption, contributed 1 billion pesos to fight against graft, and declared the Philippines eligible for more grants. The President hailed a recent breakthrough in the government's peace process negotiations with Muslim insurgents in Mindanao, a breakthrough which the Mission helped bring about with sustained engagement with all the key players. The President also highlighted new irrigation systems of farmlands in Mindanao, citing the unprecedented increase of irrigated land to a historic 1.5 million hectares in Mindanao, an accomplishment made possible by USG assistance. Similarly, the President touted the roll-on roll-off highway (RORO), a transportation system that permits trucks to roll on to a ferry and roll off on another island, a project which has had significant U.S. support. President Arroyo said that in 2007, RORO vessels carried 33 million metric tons of cargo and 31 million passengers, and the Administration built 39 RORO ports, with 12 more slated to start in the next two

years.

MIXED POLITICAL REACTION

¶4. (U) The reaction to President Arroyo's SONA was mixed, with Administration supporters predictably giving her speech high marks, while political opponents were unsparing in their criticism. Administration supporter Senator Miriam Santiago described the speech as professional, complimenting the President on her use of statistics to buttress her claim that lifting the Value Added Tax would hurt, rather than help, the nation's poor. Similarly, House Speaker Prospero Nograles said the speech had been factual, and successful in conveying its message. He added that it would do much to facilitate needed legislation through the house. Conversely, House Minority Leader Ronald Zamora, a noted Administration critic, stated that the President's remarks were simply a "feel-good speech," adding that he was not surprised that she highlighted success stories of average citizens to make her Filipino audience "feel good." He added that he did not hear President Arroyo outline an agenda to address, or assign responsibility for, the country's problems.

PROTESTERS OUT IN FORCE

¶5. (U) Thousands of Filipinos from many walks of life weathered heavy rains and wind to protest the President's address, and placards and banners denouncing the administration lined the streets. Labor unions, including the leftist Kilusang Mayo Uno, jeepney drivers, peasants, and

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others came out in force to demand across-the-board pay increases. Civil society groups attended to protest various issues, including an end to government corruption, repeal of the Value Added Tax, and ouster of the president. Political organizations, including Bayan Muna, the most prominent leftist political party, came out to protest killings of leftist activists, allegedly by government security forces. Despite the seriousness of the charges against the Administration, a festive atmosphere prevailed throughout the day, which culminated with the burning of a giant effigy of President Arroyo riding an airplane bearing the stars and stripes.

COMMENT

¶6. (SBU) COMMENT: The global economic crisis has hit the Philippines hard, and the President is clearly feeling the heat from low wage earners, who have seen a significant erosion in their purchasing power. Her address, delivered partly in English and partly in Tagalog, probably to appeal to the masses, was largely meant to explain and justify some of the Administration's more controversial programs, including the Value Added Tax. In the face of widespread polls indicating significant reductions in her popularity, President Arroyo saw this as an opportunity to tout her Administration's many successes in the economic area and elsewhere, while defusing critics' charges of the Administration's neglect of those most hard-pressed by recent rises in cost of food, fuel and another necessities. While the number of protesters that came out to demonstrate against President Arroyo was significantly higher than in previous years, the rallies were nonetheless peaceful, and probably only a reflection of the tough economic times.

KENNEY